

# 700

## Veterans Benefits and Services

**B**udget function 700 covers programs that offer benefits to military veterans. Those programs, most of which are run by the Department of Veterans Affairs (VA), provide health care; disability compensation; pensions; life insurance; housing loans; and education, training, and rehabilitation benefits. The Congressional Budget Office estimates that outlays for function 700 will total about \$68.6 billion in 2005, including discretionary outlays of about \$30.2 billion.

In recent years, the Congress has expanded health and education benefits for veterans, and spending on those programs has increased accordingly. Outlays for medical care, which are subject to appropriation, rose from roughly \$19 billion in 2000 to almost \$28 billion in 2004, an increase of more than 45 percent over those four

years. Similarly, spending on education, training, and rehabilitation benefits—all of which are mandatory programs—almost doubled during that period, from \$1.4 billion to \$2.7 billion, primarily because of higher caseloads and legislated increases in the amounts of education benefits.

Spending on disability compensation, a mandatory program, has also grown significantly in recent years—from \$19.2 billion in 2000 (adjusted to reflect 12 monthly payments) to \$26.3 billion in 2004, a rise of nearly 40 percent. That growth results primarily from increased caseloads, stemming from a push by VA to reduce the backlog of pending cases and from the addition of newly compensable diseases.

### Federal Spending, Fiscal Years 2000 to 2005 (Billions of dollars)

	2000	2001	2002	2003	2004	Estimate 2005	Average Annual Rate of Growth (Percent)	
							2000-2004	2004-2005
Budget Authority (Discretionary)	20.9	22.5	24.0	26.6	29.2	30.8	8.7	5.5
Outlays								
Discretionary	20.8	22.4	24.1	25.7	28.6	30.2	8.3	5.5
Mandatory	<u>26.3</u>	<u>22.6</u>	<u>26.9</u>	<u>31.3</u>	<u>31.2</u>	<u>38.4</u>	4.3	23.1
Total	47.1	45.0	51.0	57.0	59.8	68.6	6.2	14.7

**700-01—Mandatory**

**Narrow the Eligibility for Veterans’ Disability Compensation to Include Only Veterans with High-Rated Disabilities**

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-76	-138	-183	-256	-320	-973	-3,608
Outlays	-73	-133	-177	-250	-315	-948	-3,559

Approximately 2.6 million veterans who have service-connected disabilities receive disability compensation benefits from the Department of Veterans Affairs (VA). The amount of compensation is based on a rating of an individual’s impairment that is intended to reflect the resulting reduction, on average, in earnings capacity. Veterans’ disability ratings range from zero to 100 percent (the most severe). Veterans who are unable to maintain gainful employment and who have ratings of at least 60 percent are eligible to be paid at the 100 percent disability rate. Veterans who have disabilities rated 30 percent or higher and who have dependent spouses, children, or parents are paid special allowances because of their dependents.

The Congressional Budget Office expects at least 45,000 more veterans with disability ratings below 30 percent to begin receiving compensation of \$70 to \$200 per month each year over the 2006-2015 period. This option would, for all future cases, narrow the eligibility for compensation to include only veterans with disability ratings of 30 percent or higher. That change would reduce federal outlays by \$948 million over the 2006-2010 period.

By not awarding new compensation to veterans with disability ratings below 30 percent, VA could concentrate spending on the most impaired veterans. Furthermore, the need for compensating the least impaired veterans may be lessening. Performance in civilian jobs depends less now on physical labor than it did when the disability ratings were originally determined in 1924, and improved reconstructive techniques are now available. Thus, physical impairments rated below 30 percent may not substantively reduce veterans’ earnings. Examples of low-rated impairments include conditions such as mild arthritis, moderately flat feet, or amputation of part of a finger—conditions that would not preclude working in many occupations today.

However, veterans’ compensation could be viewed as career or lifetime indemnity payments that the federal government owes to people who were disabled to any degree while serving in the armed forces. Moreover, some disabled veterans might find it difficult to increase their working hours or otherwise make up for the loss of expected compensation payments.

RELATED OPTIONS: 700-02 and 700-04

**700-02—Mandatory**

**Narrow the Eligibility for Veterans’ Disability Compensation to Veterans Whose Disabilities Are Related to Their Military Duties**

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-17	-53	-86	-116	-143	-415	-1,548
Outlays	-17	-48	-83	-113	-140	-403	-1,522

Veterans are eligible for disability compensation if they either receive or aggravate disabilities (excluding those resulting from willful misconduct) while in active-duty service. Veterans need not be performing military duties when those disabilities are incurred or made worse for the Department of Veterans Affairs (VA) to consider them service-connected; for example, disabilities incurred while military personnel are on leave qualify. The federal government also gives dependency and indemnity compensation awards to survivors when compensable disabilities cause or are related to a veteran’s death.

According to data collected by VA, about 290,000 veterans received a total of approximately \$1.1 billion in compensation payments in 2004 for disabilities that, according to the Government Accountability Office, are generally neither caused nor aggravated by military service. The diseases linked to those disabilities (excluding diabetes mellitus, which VA has since determined to be service-connected for certain veterans) are:

- Osteoarthritis,
- Chronic obstructive pulmonary disease (including chronic bronchitis and pulmonary emphysema),

- Arteriosclerotic heart disease,
- Crohn’s disease,
- Hemorrhoids,
- Uterine fibroids, and
- Multiple sclerosis.

Ending new compensation benefits for veterans with only those seven diseases would save \$17 million in outlays in 2006 and \$403 million over the 2006-2010 period. Eliminating new compensation benefits for veterans whose compensable disabilities are also unrelated to military service would create significantly larger savings.

An argument in support of this option is that benefits should only be paid to veterans whose disabilities are directly related to their military service. An argument against this option is that veterans’ compensation benefits are payments that the federal government owes to veterans who became disabled in any way during their service in the armed forces.

700-03—Mandatory

Increase Beneficiaries’ Cost Sharing for Care at Nursing Facilities Operated by the Department of Veterans Affairs

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Outlays	-244	-252	-254	-262	-271	-1,283	-2,767

Veterans may receive long-term care in nursing homes operated by the Department of Veterans Affairs (VA), depending on the availability of resources. That care is rationed primarily on the basis of the nature of a disability and a veteran’s income. Under certain conditions, a veteran may receive care at VA’s expense in state-operated or privately run nursing facilities.

VA can charge copayments to veterans with no compensable service-connected disabilities and high enough income when they receive more than 21 days of care in VA-run nursing homes. In 2005, VA may collect up to \$5 million from providing such extended-care services, including nursing home care, the Congressional Budget Office estimates. Under current law, those collections are treated as offsets to discretionary spending that is subject to annual appropriation. CBO assumes in its baseline that those receipts are appropriated each year. According to the Government Accountability Office, state-operated nursing facilities for veterans and community long-term care facilities that treat veterans charge copayments that offset a larger share of their operating expenses than VA does. Those facilities recover as much as 43 percent through copayments. (Estate-recovery programs are another way that facilities offset costs.)

This option would authorize VA to revise its cost-sharing policies to recover more of the costs of providing care in VA nursing facilities. The department would be required

to collect a minimum of 10 percent of the cost of providing nursing home care, but it could determine what type of copayments to charge and who would pay them. For example, it could apply the copayment to a broader category of veterans or require veterans who make copayments to pay more. Recovering 10 percent of VA’s operating costs would save \$244 million in 2006 and about \$1.3 billion over five years. Achieving those savings would require depositing the receipts in the Treasury rather than allowing VA to spend them.

One justification for this option is that veterans in VA nursing facilities are getting a more generous benefit than similar veterans in non-VA facilities. Recovering more of the expense at VA facilities would make that benefit more equitable among veterans and across different sites of care.

However, beneficiaries in nursing facilities might be less able to make copayments than beneficiaries receiving other types of care. In addition, a policy allowing VA to charge veterans with service-connected disabilities would be inconsistent with the standard reflected by other medical benefits that those veterans received. In implementing this option, VA could continue to exempt those veterans, but it would have to charge high-income veterans without service-connected disabilities even more to achieve the 10 percent recovery level.

**700-04—Mandatory**

**Reduce Veterans’ Disability Compensation to Account for Social Security Disability Insurance Payments**

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Outlays	-1,451	-1,505	-1,556	-1,610	-1,669	-7,792	-17,114

Approximately 2.6 million veterans—about 1.7 million of whom are under age 65—receive compensation from the Department of Veterans Affairs (VA) for disabilities associated with their military service. The amount of compensation is based on a rating of an impairment’s average effect on a person’s earning ability. Additional allowances are paid to veterans whose disabilities are rated 30 percent or higher and who have dependent spouses, children, or parents.

Veterans with disabilities may also qualify for cash payments from other sources, including workers’ compensation; means-tested programs such as Supplemental Security Income; private disability insurance; and, for veterans under 65, Social Security’s Disability Insurance (DI) program. An estimated 120,000 veterans who receive disability compensation from VA also receive DI payments from the Social Security Administration. When Social Security beneficiaries are eligible for disability benefits from multiple sources, ceilings usually limit their combined disability benefits from public sources to 80 percent of their average earnings before they were disabled. Those DI payments—after any reduction, if applicable—are adjusted periodically for changes in the cost of living and the average wage level nationwide. Veterans’ compensation payments for disabilities, however, are not included

and do not apply toward the limit, nor do means-tested benefits and certain benefits based on public employment.

This option would limit veterans’ disability compensation for individuals receiving both that compensation and DI payments. Under the option, disability compensation would be reduced by the amount of the DI benefit. Applying that change to both current and future recipients of veterans’ compensation would affect an estimated 126,000 recipients in 2006, saving almost \$1.5 billion that year and an estimated \$7.8 billion over the 2006-2010 period. Applying that change only to veterans who were newly awarded compensation payments or DI payments would affect an estimated 2,500 recipients in 2006, saving \$30 million in outlays that year and an estimated \$850 million over the 2006-2010 period.

This option would eliminate duplicate payment of public compensation for a single disability. However, opponents view this option as subjecting veterans’ disability benefits to a form of means-testing (they are currently considered an entitlement). Moreover, to the extent that this option applied to current recipients of DI benefits, some disabled veterans would see their income drop.

RELATED OPTIONS: 700-01 and 700-02

